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I. SIGNIFICANCE TO THE US OF LATIN AMERICAN CIVIL AVIATION

Latin American civil aviation is of strategic, political and economic importance to the US national security.

Strategic Importance

In the event of a major emergency, the Latin American civil air fleet could substantially increase the military airlift capabilities of the Western Hemisphere. It could also serve as a ready vehicle for immediate access to strategic raw materials which might be required by the US from Latin America in time of war.

Political Importance

The exchange of airline services between the US and Latin America over international routes constitutes a potential means of sustaining the generally cordial relations existing between Latin American countries and the US. The present orientation of Latin American civil aviation toward the US, moreover, furthers the acceptance by Latin American countries, in their negotiations with other governments, of formulae for international air agreements which embody basic principles to which the US closely adheres.

Economic Importance

Latin American civil aviation is of economic importance to the US because it provides a medium for the investment of US capital and a direct market for US-manufactured aircraft and aviation equipment. Moreover, be-

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cause the Latin American area is notably deficient in good surface transportation, an expanding network of domestic and international airlines facilitates most US commercial activities in Latin America. US interests in the area are also benefited by the stabilizing influence which increasingly adequate internal air transport operations exercise on the domestic economies of the Latin American countries.

Civil aviation, moreover, is an important factor in international trade relationships involving Latin America, being a producer of foreign exchange.

II. HISTORICAL BACKGROUND

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Prewar Development

Prior to World War II civil air transport in Latin America was developed, financed and controlled to a large extent by European and North American interests. It was particularly susceptible to foreign development because of the financial and technical inability of most Latin American countries to develop their own air services. Lack of adequate surface transport, moreover, led Latin American countries to encourage development of air transport. As a result, foreign interests (principally German and US) established, operated, and controlled relatively extensive air networks under liberal concessions. The capability of various national interests in South America to provide domestic air services gradually increased,

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The development of Latin American civil aviation has been substantially affected by the variable power relationships between Latin America, and other areas.

however, with the result that by the outbreak of World War II a trend was perceptible toward the progressive restriction of privileges enjoyed by foreign aviation interests.

Wartime Development

Elimination of Axis Influence. With the outbreak of the European war in 1939 and the subsequent military victories of the Axis, the extensive penetration of Latin American civil aviation by German-flag and German-controlled airlines (which together flew three million miles in 1940 over 27,000 route miles throughout South America) became a source of increasing concern to the US. Italian transatlantic services, furthermore, extended from Rome to Natal, Rio de Janeiro and Buenos Aires. Consequently, the US and various Latin American governments cooperated to effect the gradual elimination of all Axis influence from Latin American aviation. This was accomplished through the progressive replacement of Axis air services either with US airlines directly or with native services operated by US-trained flight and ground personnel and backed by US financial aid and technical assistance.

As a result of these measures and the discontinuation of air services in Latin America by other European interests, together with the close war-time collaboration between the US and Latin American governments, the US, at the close of the war, enjoyed a virtual monopoly of foreign influence

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over Latin American aviation.

US Aid to Latin American Aviation. US-Latin American collaboration in aviation matters, instituted early in the war, has included the training of pilots, mechanics, instructors, engineers and high-level administrative officers, as well as technical guidance. US civil air missions have also assisted in establishing and developing standardized air traffic control and operational procedures and have provided technical advice on navigational aids, radio communications, meteorological installations and maintenance requirements. Moreover, the US has advised certain Latin American nations regarding the promulgation of modern civil aviation regulations. This assistance, together with the US-sponsored wartime Airport Development Program, laid the foundation for the rapid expansion of Latin American airline operations.

III. POSTWAR EXPANSION OF AIRLINES AND AIR FACILITIES

The end of World War II initiated a period of rapid and continuing expansion of national-flag and foreign airline operations in Latin America.

Increase in Latin American Airline Equipment

As a result of having purchased relatively modern aircraft from US postwar surplus stocks/ at low cost, Latin American scheduled airlines were operating over 400 more aircraft, including 36 more 4-engine types, in 1947 than in 1940. (See Table A.) By early 1949 another 69 aircraft, including 22 additional 4-engine transports, were added, thus bringing the *total*

Latin American civil air fleet to approximately 700 transport aircraft, of

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Although US-manufactured aircraft amounted to 62 percent of the total owned by Latin American scheduled airlines, in 1940, only 23 of these transports were as modern as the DC-3. In 1949, six hundred aircraft, or 33 percent of the total, were of US manufacture and of these four hundred and fifty were of types at least as large and as modern as the DC-3. (Aircraft of UK manufacture in use in 1949 amounted to only 3 percent of the Latin American transport total.) The increase in US equipment operated by American airlines, moreover, would have been even greater had ^{it} not been for the severe dollar shortage which has recently prevailed in most Latin American countries.

Although Latin American airlines operated 13 percent of the world total of scheduled airline equipment in 1949 (excluding the USSR), their share of 4-engine aircraft amounted to slightly less than 7 percent of the world total of this type.

Increase in Latin American Airline Operations

As a result of rapid postwar expansion, South American scheduled airlines were operating in 1949 about five times more mileage ~~per week~~ than in 1940. (See Table B.) By 1949, this mileage had increased to over one million miles per week or almost seven times that scheduled in 1940. The principal increases in scheduled weekly mileage from 1940 to 1949 were made by airlines of Argentina (an increase of about 140,000 miles--1400 percent), Brazil (about 460,000 miles--over 700 percent) and Venezuela

Approved For Release 2000/08/23 : ~~SECRET~~ CIA-RDP67-00059A000500020003-1

(about 170,000 miles—over 1500 percent), which have established ^{substantial} extensive intercontinental operations.

The mileage scheduled ~~per week~~ by Middle American airlines has also shown a marked increase, amounting in 1949 to over 3 times that of 1940. For example, since 1940 the airlines of Mexico and Cuba have increased their scheduled operations per week by over 220,000 miles (300 percent) and over 70,000 miles (500 percent), respectively. Most of the Middle American expansion, however, occurred before 1947. There has even been a slight overall decrease in total Middle American scheduled mileage since 1947, in spite of continued expansion by certain individual airlines.

The total scheduled mileage in early 1949 for all Latin American airlines amounted to slightly less than 20 percent of the mileage flown by all US scheduled domestic and international carriers and about 11 percent of the world total of schedule operations, exclusive of the USSR.

Despite pronounced postwar expansion of operations, Latin American airlines have been limited by the general lack of public funds throughout the area, and by the severe dollar shortages which have affected most Latin American countries. Government plans for badly needed development and improvement of airports, radio aids to navigation, and meteorological and communications facilities have had to be realistically adjusted to national budgets. Many airlines, therefore, have been forced to develop

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air installations at their own expense. As indicated above, moreover, the recent dollar shortage has also limited to some extent the expansion of airline operations by preventing the purchase of desired new equipment from the US.

Increaseⁱⁿ Operations of Foreign Airlines in Latin America

The growing capability of Latin American carriers to provide services throughout Latin America and to Europe and the US has created an increasingly competitive situation for foreign airlines operating to Latin America. In addition, the postwar inauguration of Latin American operations by six European carriers has gradually dissipated the monopoly of foreign-flag services enjoyed immediately after the war by the US in that area. In spite of these developments, the postwar Latin American operations of US scheduled airlines have expanded considerably, partly as a result of the addition of new routes, but principally because of the greatly increased frequency and capacity of services offered. Moreover, despite the growth of Latin American²/~~flag~~ services, the ~~weekly~~ scheduled mileage of US-flag airlines operating in Latin America in 1949 was still about 50 percent of the domestic and international mileage of all Latin American-flag scheduled airlines combined.

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IV. CURRENT AND POTENTIAL
POSTWAR TRENDS IN LATIN AMERICAN CIVIL AVIATION POLICY

The principal postwar trends in Latin American policies regarding domestic and international civil aviation reflect the increased capabilities of Latin American air interests to provide adequate air transport services. The development of national-flag aviation has resulted in a growing Latin American independence of foreign influence in aviation matters and a concurrent desire to protect national airlines from ~~intensive~~ ^{intensive} foreign competition in international operations. In domestic operations, moreover, all but two of ~~these~~ ^{the} Latin American countries, which granted cabotage privileges to foreign airlines, have withdrawn such rights, thus reserving domestic air traffic to national interests.

← Policy Toward National-Flag Airlines

1. Ownership and Control by Nationals. In order to ensure greater national control over all phases of expanding civil aviation activities, many Latin American countries are modernizing and enforcing existing legislation and promulgating new regulations designed to ensure majority stock ownership and effective control of national-flag airlines by citizens of the same nationality. The trend toward ownership by nationals has been accelerated by the customary postwar requirement ⁱⁿ of bilateral air agreements (in accordance with Article 5 of the

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(Services Transit)
International Air ~~Services~~ Agreement) that national-flag airlines operating internationally must be substantially owned and effectively controlled by interests of the airline's nationality. There is now no foreign capital participation other than US in Latin American-flag airline operations, and there has been an appreciable reduction in US participation since the end of World War II.

X. Government Promotion of Continued Expansion. Many Latin American countries are promoting the development of adequate air services to all parts of their territories and in this respect are encouraging their domestic air carriers by means of air mail contracts and other forms of direct or indirect subsidy. Modern airports and other operational facilities in many instances are being developed at government expense. Private flying is also promoted through government support of aero clubs. These programs are already being limited, however, by a growing shortage of public funds available for such purposes in some Latin American countries and by the increasing cost of all phases of civil aviation. As a result, these countries will probably be unable for some time to initiate ^{over-all} ~~comprehensive~~ development programs, and construction or improvement of facilities may be restricted to only the most essential projects. Nevertheless, the announced plans of various Latin American airlines indicate that there will continue to be an expansion

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of both domestic and international air routes and frequencies. Latin American governments will continue to seek US advice and assistance in technical training of Latin American airline personnel until national capabilities have been further developed.

4. Protection of International Carriers. In addition to the foregoing positive support of both domestic and international airlines, a number of Latin American countries have adopted policies designed to protect their national-flag carriers operating internationally from ⁱⁿ⁻~~un-~~ ^{Tensive} foreign competition. Attempts have been made during negotiations for air transport agreements with other countries to neutralize the competitive advantage of heavily-subsidized foreign airlines by restricting their traffic privileges in Latin America (see below, "Policy Toward International Arrangements and Foreign-Flag Airlines").

5. Procurement of Foreign Aircraft. There are indications that the Latin American countries will seek increasingly to purchase new aircraft and technical equipment from the sterling area in an effort to overcome the handicap to continued airline expansion caused by the prevalent shortage of dollar exchange ~~for the purchase of US equipment~~ ~~of this type.~~ The trend away from US equipment will probably be intensified by the competitive price advantages accruing to British and European manufacturers from currency devaluation. Moreover, aircraft types

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~~/~~ negotiating such an agreement. There appears to be little likelihood, moreover, that this attitude will undergo a change in the foreseeable future.

~~/~~. Bilateral Air Transport Agreements. In contrast to their opposition to multilateral agreements of a liberal type, Latin American countries have concluded forty-three bilateral air agreements which, for the most part, conform to the basic principles of the Bermuda pact. * The substantial post-war expansion of both Latin American-flag international operations and foreign-flag services to Latin America necessitated the conclusion of thirty-five agreements involving non-Latin American countries, ~~/~~principally the US and UK~~/~~. The ^{other eight agreements} ~~remainder~~ govern civil air relations within the Latin American area.

Two leading Latin American civil air powers, ^{Mexico} ~~Argentina~~ and ^{Argentina} ~~Mexico~~ have consistently attempted to protect their international carriers by pursuing policies designed to restrict foreign-flag operations in their territories, either through limitation of flight frequencies or a predetermined division of traffic. Mexico, whose international airlines are at present in the early stages of development, has successfully maintained its restrictive policy with the result that only two bilateral air agreements have been concluded. Argentina, on the other hand, with numerous foreign routes and plans for further expansion, has been forced in most cases to accede to more liberal principles demanded

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by other countries in order to obtain the desired foreign landing rights for its own international airline.

In contrast to Argentina and Mexico, Brazil, whose principal international carrier is well able to compete with foreign airlines, has not pursued a restrictive air policy, but has signed twelve bilateral agreements of a liberal type. While Colombia and Venezuela, whose flag airlines operate less extensive international routes, have not yet attempted any major restriction of foreign airlines, there are indications that they may wish to do so ^(if they become convinced that) ~~the~~ the ability of their airlines to compete successfully on international routes is threatened by strong foreign competition. The remaining Latin American countries are not yet conducting significant international air operations and therefore have had little reason thus far to adopt protectionist measures for their national-flag enterprises. The already demonstrated opposition of these countries to a multilateral exchange of Fifth Freedom privileges, however, indicates the strong possibility that their relative financial and technical weakness in civil aviation will cause them to attempt some limitation of

foreign competition when they are in a position to initiate their own international services. ^{On the other hand, these countries may} ~~Unless the world trend, toward limitation of~~

^{eventually find it necessary to follow the example of} ~~international air traffic rights develop considerably more impetus than~~

~~is now apparent, these countries will probably follow Argentina in~~

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~~negotiating a desire for negotiation of foreign airline rights in their~~

~~negotiations~~ in order to obtain maximum rights in other countries for their own air carriers.

The US and UK, the two principal proponents of the Bermuda principles, have been particularly successful in promoting Bermuda-type air agreements in Latin America. The US has concluded eleven such agreements throughout ^{The area,} ~~Latin America~~, including all the larger countries ~~in~~ ~~the area~~ except Mexico. The UK, for its part, has negotiated six Bermuda-type agreements in Latin America, in addition to a restrictive agreement signed with Argentina prior to the Bermuda pact.

7. International Organizations. The fifteen Latin American members of the International Civil Aviation Organization (ICAO) participate in its proceedings as actively as their financial and technical resources will permit. Four of these members, however, were censured during 1949 for failure to meet their financial obligations to the organization. Financial difficulties have been largely responsible for failure of the other five Latin American countries to join the organization.

Nine international airlines of seven Latin American countries are active members of the international carriers' organization, the International Air Transport Association.

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^{are}
US security interests ~~will~~ be promoted by the continued development and expansion toward a stable and efficient Latin American air transport system. Such a system will not only make a substantial contribution to Latin American economic development, but will also be of considerable physical significance to the Western war potential by reason of its increased and modernized air transport fleet and airfield facilities, and its trained flight and ground personnel. US interests are also served by the continued orientation of Latin American civil aviation toward the US, which still exercises the predominant foreign influence in Latin American aviation matters.

On the other hand, certain current or potential aviation trends in Latin America, which run counter to US political, economic and strategic interests, reflect diminishing US influence in Latin American aviation. One development which has already had an unfavorable effect on US interests is the trend toward the limitation of foreign ownership of Latin American airlines. This has caused an appreciable reduction in US capital participation in Latin American aviation, largely in favor of native capital. Pan American Airways, for example, has relinquished majority stock control of at least three major subsidiaries, although retaining a degree of effective control through the indebtedness to the parent company of these subsidiaries. US capital is now represented in about twenty Latin American-flag airlines,

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but it is doubtful that US interests retain a majority interest in more than five of these, none of which is in South America. As a consequence of the reduction in US holdings, effective US control over Latin American-flag airline operations has been considerably ~~diminished~~ ^{curtailed.} ~~Moreover~~ ^{TP} US interests ^{also} would be adversely affected by substantial Latin American procurement of non-US transport aircraft. Such a development would decrease the possible Latin American contribution to the Western Hemisphere airlift potential by removing the present advantages of standardisation of equipment based on US-manufactured types also currently in use by US civil and military transport services. Furthermore, a reduction in the considerable market now enjoyed in Latin America by US suppliers of transport aircraft would, affect to some extent the ^{immediate potential} ~~emergency capabilities~~ of the US aircraft industry, ^{in an emergency} ~~in an emergency~~ ^{a third development} ~~adversely affect~~ ^{ing US interests would be} ~~a marked trend~~ toward restriction of operating rights for foreign carriers. This would not only progressively reduce the US share of Latin American airline traffic, but also give impetus to a developing trend toward ^{such} ~~restrictions~~ in certain other areas of the world, possibly resulting in foreign measures affecting the ability of US carriers to operate successfully over world routes.

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